

VZCZCXYZ0003
PP RUEHWEB

DE RUEHVN #0897/01 3461035
ZNY CCCCC ZZH
P 121035Z DEC 07
FM AMEMBASSY VIENTIANE
TO RHHMUNA/CDR USPACOM HONOLULU HI PRIORITY
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 2893
RUEHC/SECSTATE WASHDC PRIORITY 1692
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
RUCNASE/ASEAN MEMBER COLLECTIVE

C O N F I D E N T I A L VIENTIANE 000897

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DEPARTMENT FOR EAP/MLS (BESTIC)
SECDEF FOR OSD-POLICY (STERN, SHUBERT)
USPACOM FOR J-5 (LACY)
USPACOM FOR POLAD

E.O. 12958: DECL: 12/11/2017
TAGS: [KPOW](#) [LA](#) [MARR](#) [MOPS](#) [OVIP](#) [PGOV](#) [PREL](#)
SUBJECT: SCENE SETTER FOR THE VISIT OF ADMIRAL KEATING

REF: USPACOM 280238Z NOV 07

Classified By: Ambassador Ravic R. Huso for reason 1.4 (d).

11. (C) I and the Vientiane Country Team are delighted to welcome you and your team to Laos. The Lao agreed to a far broader range of meetings with senior officials than they did for Admiral Fallon who visited in July 2006. I believe that they have made a strategic decision to begin a step-by-step process leading to a more normal military-to-military relationship with the United States. Although there is a strong pro-Beijing faction in the Lao communist party, there are many in the party and government who are concerned by China's rapidly increasing economic presence in Laos and are seeking to balance China's influence with better relations, first, with other Asian countries, and, second, with the Europeans and the United States.

12. (C) Although the image of Laos as an economic basket-case lingers, it is no longer true. While the majority of Lao (80 percent) continue to eke out a living from subsistence agriculture, the government is raking in royalties and tax revenues from mining and hydropower projects with many more in the pipeline. Laos has an enormous potential wealth of natural resources, and the race to develop or exploit these is on. The Australians are now in the game once dominated by the Thai, Japanese, and Koreans. The Chinese want a bigger stake, and they are getting it through investments that focus on the bottom-line with no concern for environmental or social consequences and through the political stroking of the Lao leadership. Recently, Beijing offered to build from scratch the entire infrastructure needed for Laos to host the Southeast Asia Games in 2009. In an apparent quid-pro-quo, the Lao granted a land concession on the outskirts of Vientiane to build an industrial and trade zone and to allow the Chinese to bring in three thousand long-term workers to provide the manpower; the workers are being allowed to bring their family members with them.

13. (C) Politically, as well as economically, Laos is at a transition point. Under the careful supervision of more senior members of the Politburo who are veterans of the Pathet Lao organization from the Indochina War years, Bouasone Bouphavanh, who was named Prime Minister in 2006, appears to be moving GOL policy in a more pragmatic direction. PM Bouasone, at age 53, is the youngest member of the 11-member Politburo, ranking seventh. The old-guard appears no longer to be setting policy but still acts as a brake on the pace of change. While none of the senior GOL

officials, including PM Bouasone looks to give up their one-party system, pressure for change comes from the international donor community, the examples of fellow ASEAN countries, and greater exposure to outside information. Satellite dishes are starting to appear even in remote villages -- powered by batteries -- and people in the cities are connecting to the Internet.

14. (C) In contrast to increasing economic freedoms, the Lao do not enjoy political freedom, and the GOL's track record on human rights continues to be poor. Most troubling has been the continuing focus of the Lao military on suppressing the final remnants of the thirty-year Hmong insurgency. The remaining insurgents, perhaps no more than 1000 including family members, face constant pressure from military units.

15. (C) The rapid growth of the Lao economy (7 percent GDP increase in 2007) is expected to be sustainable through 2012. The key challenge is to expand beyond the resource sectors -- which generate few jobs -- to create broad-based employment. Investments in infrastructure and human capital as well as strengthened regulations to improve the business climate are crucial to attract the investment to help this succeed. Finally, corruption -- which puts all economic advances at risk -- must be addressed.

16. (C) While our relationship with the GOL has cautiously improved, Lao-China relations are improving rapidly, threatening Vietnam's position as the preeminent partner. Thai-Lao ties are wide-spread, especially with hydropower purchases by the Thai Government and a broad range of medium-level investments by Thai merchants. While conditions in Laos are difficult for U.S. investors, Chinese and Thai merchants are finding a very fertile environment for their activities. We look to membership in ASEAN as helping the GOL move toward more economic interaction with the region and this will generate positive political impact.

17. (C) We are pleased our IMET agreement with the GOL is moving forward and BG Sisophonh has announced the GOL's intention to exchange Defense Attaches. One key objective of your visit will be to push the GOL to undertake substantive discussions about this exchange and about opening the DATT office here by summer 2008. More broadly, your visit will demonstrate U.S. interest in moving the relationship forward, primarily through targeted SMEEs and increased Lao participation in PME courses (for example, APCSS) and at regional conferences hosted by PACOM. Our interests would be well-served by opening a dialogue with the Lao military intended to encourage them to take the first steps to participating in cooperative security activities, with the United States and regionally, particularly in areas such as disaster relief, Avian Influenza preparedness, UXO removal, and border security.

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